

# United States Senate

WASHINGTON, DC 20510

February 15, 2007

Dear Colleague,

We would like to invite your cosponsorship of the Oil and Gas Traders Oversight Act of 2007 which would provide long-overdue and necessary federal oversight of our energy markets.

Ever since the widespread manipulation of energy prices by Enron and other energy traders during the California and Western power crises, it has been apparent that federal oversight of the energy markets is significantly hindered by the "Enron loophole." This loophole, which was inserted at the last minute into the Commodity Futures Modernization Act of 2000 at the behest of Enron and other large energy traders, enables energy traders to avoid oversight by trading energy derivatives off the regulated exchanges ("over-the-counter").

Numerous studies have found that market speculation has been a significant contributor to the rise in oil and natural gas prices over the past few years; much of this speculation has taken place outside the purview of federal regulators. Most recently, in September 2006, Amaranth Advisers, LLC, a large hedge fund, suffered a reported loss of about \$6 billion due to "bad bets" in the natural gas market. On January 30<sup>th</sup>, 2007, the *Wall Street Journal* reported that Amaranth suspected energy market price manipulation played a role in the fund's collapse. (Please see the attached *Wall Street Journal* article). Absent a comprehensive view of the energy markets, it is impossible to fully understand the effect of this type of speculation on energy prices or effectively detect and deter price manipulation.

Our bill would require traders to report large trades, keep records, and maintain an audit trail for all electronic over-the-counter energy trades. Specifically, the bill would:

- Require traders who use electronic over-the-counter trading facilities, such as the Intercontinental Exchange (ICE), to report large trades in energy commodities and to keep records for five years or longer. These are the same requirements that apply to traders that do business on the New York Mercantile Exchange (NYMEX);
- Require traders to provide such records to the Commodity Futures Trading Commission (CFTC) or the Justice Department upon request. Again, these are the same requirements for NYMEX traders; and
- Require persons in the United States, who trade U.S. energy commodities on foreign futures exchanges, to keep similar records and report large trades.

In recognition of this regulatory gap, the CFTC recently asked ICE to provide large trader information for certain electronically traded energy contracts. ICE agreed to comply. We welcome these positive developments, but nonetheless believe that this legislation is necessary to remove any doubt as to the CFTC's authority to mandate these reports and to ensure these requirements are not administratively removed at some later date.

Additionally, in its recent request the CFTC has only asked ICE to report those trades that are performed using NYMEX-established prices. NYMEX does not establish prices for electricity, so none

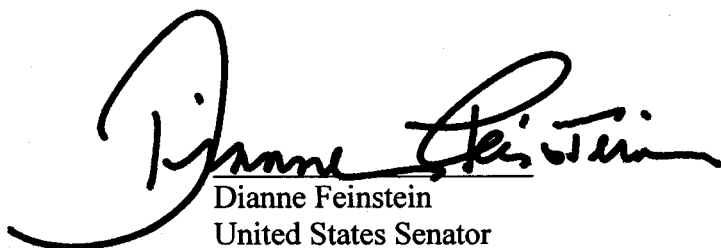
of the electricity trades will be reported. This means that the CFTC still will have no information about large trades in the electricity market.

Our bill will require reporting of all electronic over-the-counter energy trades and will provide legislative certainty that these trades will be reported.

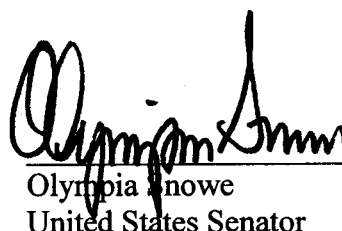
It is well-established that commodity markets are more easily manipulated when there is no federal oversight. It is high time to fix this problem in the energy markets. We urge you to support this bill.

Please have your staff contact Kit Batten in Senator Feinstein's office (4-2745) if you would like to cosponsor this bill.

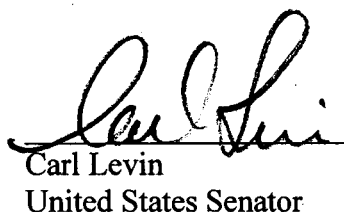
Sincerely,



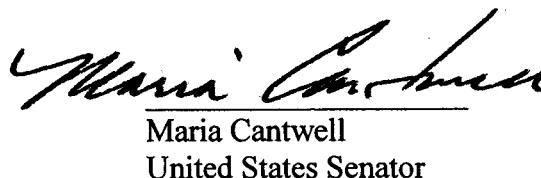
Dianne Feinstein  
United States Senator



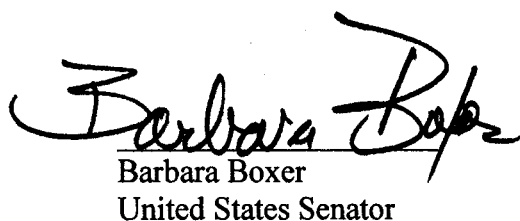
Olympia Snowe  
United States Senator



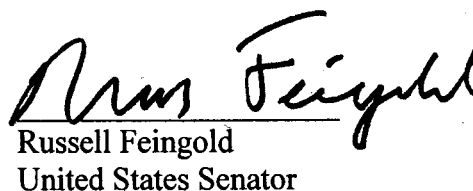
Carl Levin  
United States Senator



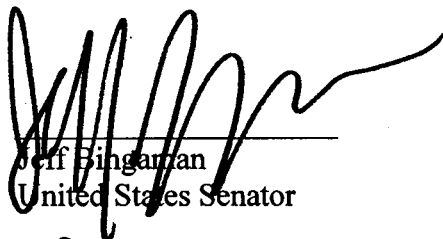
Maria Cantwell  
United States Senator



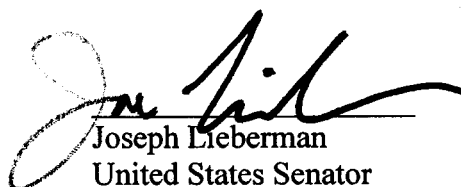
Barbara Boxer  
United States Senator



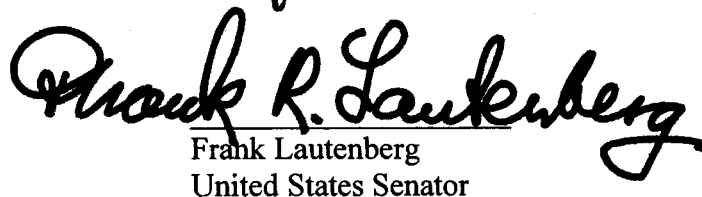
Russell Feingold  
United States Senator



Jeff Bingaman  
United States Senator



Joseph Lieberman  
United States Senator



Frank Lautenberg  
United States Senator



Barbara Mikulski  
United States Senator